

# **Michigan Municipal Risk Management Authority**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# Michigan Municipal Risk Management Authority

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# Independent Auditor's Report

To the Board of Directors  
Michigan Municipal Risk Management Authority

We have audited the accompanying statement of net assets of Michigan Municipal Risk Management Authority (a municipal joint venture) (MMRMA) as of June 30, 2007 and 2006 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of MMRMA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Municipal Risk Management Authority at June 30, 2007 and 2006 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 7 to the financial statements, during the year ended June 30, 2006, MMRMA elected the early adoption of Governmental Accounting Standard Board (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The management's discussion and analysis (identified in the table of contents) is not a required part of the financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Michigan Municipal Risk Management Authority's basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental and other supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

October 10, 2007

# **Michigan Municipal Risk Management Authority**

## **Management's Discussion and Analysis**

This section of Michigan Municipal Risk Management Authority's annual financial report presents our discussion and analysis of MMRMA's financial performance during the year ended June 30, 2007. Please read it in conjunction with MMRMA's financial statements, which immediately follow this section.

### **Using this Annual Report**

MMRMA is a public entity self-insurance pool that provides property and liability coverages to its participating members. Membership is limited to municipal corporations as defined by Michigan statute.

MMRMA is financed by contributions from its member municipal corporations and these contributions are based upon underwriting criteria and guidelines approved by the board of directors. MMRMA has three categories of membership: individual members - individual municipal corporations, each maintaining a separate self-insured retention; pool members - an association of risk-sharing members; and affiliated members - other Public Act 138 organizations that contract with MMRMA for certain coverages and services. The only current affiliated member is Michigan Community College Risk Management Authority, which contracts with MMRMA for reinsurance, claims adjusting, and underwriting services.

Individual members each maintain a minimum amount of funds, in an amount established by the executive director, on deposit with MMRMA. The pool, acting as a single member, also maintains funds on deposit with MMRMA. Members' funds on deposit are accounted for on the cash basis in the Members' Retention Fund and are used primarily to pay claims and related loss adjustment expenses that are obligations of the members.

### **Financial Overview**

This annual statement consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required and other supplemental information.

MMRMA's activity is maintained in one fund. The basic financial statements, which follow this section, provide both long-term and short-term information about MMRMA's financial status. These basic financial statements report information about MMRMA using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. These statements reflect only the risk carried by MMRMA, which also includes any potential unrecoverable reinsurance claims.

# Michigan Municipal Risk Management Authority

## Management's Discussion and Analysis (Continued)

The three basic financial statements presented are as follows:

- **Statement of Net Assets** - This statement presents information reflecting MMRMA's assets, liabilities, and net assets and is categorized into current and noncurrent assets and liabilities. For the purpose of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date.
- **Statement of Revenues, Expenses, and Changes in Net Assets** - This statement reflects the operating and nonoperating revenue and expenses for the previous two fiscal years. Operating revenue consists primarily of member contributions, with the major sources of operating expenses being claims and claims adjustment expenses, general and administrative expenses, and reinsurance costs. Nonoperating revenue consists primarily of investment income.
- **Statement of Cash Flows** - This statement is presented on the direct method of reporting and reflects cash flows from operating activities and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash equivalents for the fiscal year.

# Michigan Municipal Risk Management Authority

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information

The statements report MMRMA's net assets and how they have changed. Net assets - the difference between MMRMA's assets and liabilities - is one way to measure MMRMA's financial health or position. Over time, increases and decreases in MMRMA's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information is as follows:

	June 30		
	2007	2006	2005
<b>Total Assets</b>			
Current assets	\$ 341,465,508	\$ 267,073,910	\$ 241,595,493
Noncurrent assets	6,528,370	6,363,102	6,462,264
Total assets	347,993,878	273,437,012	248,057,757
<b>Total Liabilities</b>			
Total current liabilities	110,976,949	75,586,576	66,753,207
Total noncurrent liabilities	50,592,253	58,513,925	51,173,014
Total liabilities	161,569,202	134,100,501	117,926,221
<b>Net Assets</b>			
Invested in capital assets	397,761	276,050	394,357
Net unrestricted assets	186,026,915	139,060,461	129,737,179
Total net assets	<u>\$ 186,424,676</u>	<u>\$ 139,336,511</u>	<u>\$ 130,131,536</u>
	Year Ended June 30		
	2007	2006	2005
<b>Revenue</b>			
Member contributions - Net	\$ 35,805,804	\$ 34,900,859	\$ 36,165,651
Energy Choice Program revenue	3,639,056	5,069,062	6,059,572
Loss contributions from associated programs	1,600,684	1,549,100	1,112,711
Total revenue	41,045,544	41,519,021	43,337,934
<b>Expenses</b>			
Total risk management, underwriting, and other expenses	13,543,109	16,097,436	15,950,094
Total claims and related expenses	8,715,380	23,806,972	16,379,886
Total expenses	22,258,489	39,904,408	32,329,980
<b>Operating Income</b>	18,787,055	1,614,613	11,007,954
<b>Nonoperating Revenue</b> - Net investment income	35,874,785	11,287,358	14,488,445
<b>Distribution to Members</b>	(7,573,675)	(3,696,996)	-
<b>Increase in Net Assets</b>	<u>\$ 47,088,165</u>	<u>\$ 9,204,975</u>	<u>\$ 25,496,399</u>

In addition to net assets, when assessing the overall health of MMRMA, the reader needs to consider other nonfinancial factors such as the legal climate in the State of Michigan, the general state of the financial markets, and the level of risk prevention undertaken by MMRMA and its members.

# **Michigan Municipal Risk Management Authority**

## **Management's Discussion and Analysis (Continued)**

MMRMA cannot control the first two factors. However, since its inception, MMRMA has been a leader in implementing aggressive risk prevention programs. It provides extensive training to its members in various areas of municipal operations. It makes use of several advisory committees comprised of member employees holding job responsibilities related to the activities of the committees. The advisory committees meet throughout the year to produce model policies and procedures and facilitate training in the areas of building and court security, law enforcement, parks and recreation, fire/EMS, telecommunications, employment, and public works.

### **Condensed Comparative Financial Highlights**

- Overall, MMRMA's net assets increased by \$47.1 million (34 percent) from \$139.3 million to \$186.4 million.
- Total revenue decreased by \$500,000 (1 percent) from \$41.5 million to \$41 million. This was primarily due to decreased revenues from the Energy Choice Program.
- Risk management, underwriting, and other administrative expenses decreased by approximately \$1.1 million (10 percent) from \$11.1 million to \$10 million. This was due to the fact that the prior year's financials included \$1 million in expense for the full actuarial accrued liability of the newly established retiree health benefit plan.
- Net contributions used to fund risk carried by MMRMA increased by approximately \$2.1 million (8 percent) from \$25.4 million to \$27.5 million.
- Claim payments increased by \$4.1 million (34 percent) from \$11.7 million to \$15.8 million. The amount of paid claims varies from year to year, and is driven by many factors outside MMRMA's control. Although the current year's paid amount is higher than the previous year, this does not appear to represent a negative trend, but merely variation around the mean.
- Ceded reinsurance costs decreased by approximately \$300,000 (1.8 percent) from \$16.2 million to \$15.9 million.
- Reserves (reported net of estimated reinsurance recoveries), which includes reported, incurred but not reported, and unallocated loss adjustment expense, decreased by approximately \$7.1 million (7 percent) from \$96.2 million to \$89.1 million. The reason for the decrease is that claims experience from accident years 2006 and prior was better than expected for the casualty program. Actuarial estimates of ultimate losses have decreased as a result, particularly for the police professional and public officials liability coverages.
- Investment income of \$35.9 million was earned this year compared to \$11.3 million in the prior year due to outstanding market conditions during FY 2007.

# **Michigan Municipal Risk Management Authority**

## **Management's Discussion and Analysis (Continued)**

### **Investments**

Investments in cash and cash equivalents, fixed income, and equity securities comprise the most significant numbers in the asset section of MMRMA's statement of net assets. Accordingly, the board of directors has established an investment policy with an overall objective of moderate growth of assets consistent with lower fluctuations of market values and protection against erosion of purchasing power caused by inflation. Each investment transaction seeks to insure that capital losses are minimized, whether caused by security defaults or decline in market value. The goal of MMRMA is to attain, on the total portfolio, an above-market average rate of return throughout economic cycles, taking into account MMRMA's investment risk constraints.

The board of directors has overall fiduciary responsibility for the investment of MMRMA assets. The executive director is responsible for the implementation and administration of the investment policies, including the coordination of investment activities and strategic initiatives. MMRMA retains an independent investment consultant to assist the executive director in the implementation of the investment policy. The finance committee receives regular reports from the investment consultant and provides input to the executive director and to the board in matters related to the investment policy and performance results. The responsibility for determining specific investment transactions, within the guidelines of the investment policy, rests with the investment managers retained by MMRMA. MMRMA retains both active and passive managers.

The investment policy includes an allocation range for each asset class in order to vary exposure within and among the different asset classes. The asset allocation policy is reviewed on a periodic basis with a focus on changes in financial needs, investment objectives, risk tolerance, and asset class performance.

Each asset class is measured against a performance standard specific to that asset class. Total fund performance is measured against a policy index which is a hypothetical fund with 50 percent invested in the Russell 3000 Large Cap Equity Index, 40 percent in the Lehman Brothers Intermediate Government/Credit Bond Index, and 10 percent in the 91-day Treasury Bill Index. In FY 2007, total fund performance exceeded the policy index.

Currently, all investments of MMRMA are professionally managed in both passive index and actively managed funds and held in trust by Comerica Bank. A \$5 million bond is held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by the State.

### **Reserves for Unpaid Claims**

MMRMA's most significant numbers in the liability section of the statement of net assets are the reserves for reported, incurred but not reported claims, and claim adjustment expenses. Tillinghast, a Towers Perrin Company, conducts an independent actuarial analysis to determine the adequacy and reasonableness of such reserves.



# Michigan Municipal Risk Management Authority

## Management's Discussion and Analysis (Continued)

### Budgetary Highlights

The budget for the year ended June 30, 2007 was approved by the board of directors during its June 2006 meeting.

	Budgeted	Actual	Variance Positive (Negative)
Revenues:			
Members	\$ 52,967,000	\$ 51,820,391	\$ (1,146,609)
Affiliate	1,666,066	1,600,684	(65,382)
Investment income	8,000,000	35,874,785	27,874,785
Total revenues	62,633,066	89,295,860	26,662,794
Expenditures:			
Membership services	17,334,000	16,475,107	858,893
Administration	2,890,430	2,370,106	520,324
Claims services	1,797,490	1,560,089	237,401
Risk management	5,194,135	4,974,151	219,984
Information	1,405,387	539,187	866,200
Total expenditures	28,621,442	25,918,640	2,702,802
Claims paid	18,500,000	15,784,291	2,715,709
Excess revenue	<u>\$ 15,511,624</u>	47,592,929	<u>\$ 32,081,305</u>
Decrease in reserves**		7,068,911	
Excess of revenues over expenses		<u>\$ 54,661,840</u>	

\*\* Not a budgeted item

Total resources actually received by MMRMA exceeded budgeted amounts by \$26.7 million, or 42 percent. Member and affiliate contributions were \$1.1 million under budget; however, MMRMA experienced a \$35.9 million investment gain rather than the \$8 million that was budgeted, resulting in the overall increase.

Membership services expenditures were under the budgeted amount by \$859,000 or 5 percent. This was due primarily to the fact that reinsurance costs were not finalized until after the budget was approved.

Administrative services expenses were under budget by \$520,000, or 18 percent, due primarily to lower investment and legal counsel fees as well as a decrease in personnel costs due to an unfilled position.

# **Michigan Municipal Risk Management Authority**

## **Management's Discussion and Analysis (Continued)**

Claims services expenses were under budget by \$237,000, or 13 percent, due primarily to a decrease in personnel costs due to an unfilled position.

Risk management expenses were under budget by approximately \$220,000, or 4 percent, due to primarily to lower risk management fees and a reduction in payments for Risk Avoidance Grants and Projects.

Information services expenses were under budget by \$866,000, or 62 percent. This was due to the fact that new software development was not complete in fiscal year 2007, as expected. As a result, the remainder of the budgeted expense for software development and maintenance has been transferred to the fiscal year 2008 budget.

Claims and legal expenses paid during the year were \$15.8 million, which is 15 percent under budget. The actual payment of claims depends on many factors and varies from year to year.

In total, MMRMA had budgeted net revenue over expense amount of \$15.5 million. The combination of a decrease in the actuarially determined incurred but not reported (IBNR) reserves, higher than budgeted investment income, and a decrease in claims paid resulted in a \$54.6 million increase in net assets, before distributions to members, for the fiscal year ended June 30, 2007.

### **Capital Assets**

MMRMA owns its office building located in Livonia, Michigan. It was built at a cost of \$1.8 million and is being depreciated on a straight-line basis over 15 years. MMRMA's policy on payments for computer hardware, software, and building improvements with a cost greater than \$5,000 is to capitalize such payments and to depreciate or amortize them over five years. In 2007, MMRMA capitalized \$246,000 in computer hardware and software costs. MMRMA follows the State of Michigan requirement that furniture and equipment be expensed when purchased.

### **Economic Factors and Next Year's Budget**

The reinsurance industry continues to respond to catastrophic losses as well as to continuing uncertain investment market conditions. In this uncertain climate, MMRMA plans to hold sufficient net assets to act as a contingency for uncollectible reinsurance. Net assets will also provide protection from reserve deficiencies, investment volatility, and new, unexpected, or catastrophic claims.

# **Michigan Municipal Risk Management Authority**

## **Management's Discussion and Analysis (Continued)**

### **Contacting MMRMA's Management**

This financial report is designed to provide a general overview of MMRMA's finances and to demonstrate MMRMA's accountability for the revenue it receives. If you have questions about this report or need additional information, contact MMRMA's office.

14001 Merriman Road  
Livonia, Michigan 48154  
734-513-0300  
[www.mmrma.org](http://www.mmrma.org)

# Michigan Municipal Risk Management Authority

## Statement of Net Assets

	June 30	
	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 5)	\$ 55,323,616	\$ 14,640,247
Member contributions receivable	5,433,849	5,930,826
Reinsurance recoverable	3,545,322	1,745,437
Fixed maturities at fair value (Note 5)	118,479,605	87,325,533
Equity securities at fair value (Note 5)	152,061,379	152,347,813
Prepaid expenses and other current assets	6,621,737	5,084,054
Total current assets	341,465,508	267,073,910
Noncurrent assets:		
Restricted investment (Notes 1 and 5)	5,000,000	5,000,000
Investments	1,130,609	1,087,052
Capital assets - Net of accumulated depreciation (Note 6)	397,761	276,050
Total noncurrent assets	6,528,370	6,363,102
Total assets	347,993,878	273,437,012
<b>Liabilities</b>		
Current liabilities:		
Reserve for claims and claim adjustment expenses reported (Note 3)	9,348,960	9,026,898
Reserve for claims and claim adjustment expenses incurred but not reported (Note 3)	29,180,840	28,650,141
Reinsurance premiums and casualty treaty adjustments payable	-	204,671
Accrued expenses	1,513,871	2,244,900
Distributions payable	7,573,675	3,696,996
Pending trades (Note 5)	26,888,119	613,669
Unearned contributions	12,541,631	12,602,871
Member funds held on deposit (Note 2)	23,929,853	18,546,430
Total current liabilities	110,976,949	75,586,576
Noncurrent liabilities:		
Reserve for claims and claim adjustment expenses reported - Net of current portion (Note 3)	13,966,052	14,019,128
Reserve for claims and claim adjustment expenses incurred but not reported - Net of current portion (Note 3)	36,626,201	44,494,797
Total noncurrent liabilities	50,592,253	58,513,925
Total liabilities	161,569,202	134,100,501
<b>Net Assets</b>		
Invested in capital assets	397,761	276,050
Net unrestricted assets	186,026,915	139,060,461
Total net assets	<u>\$ 186,424,676</u>	<u>\$ 139,336,511</u>

# Michigan Municipal Risk Management Authority

## Statement of Revenue, Expenses, and Changes in Net Assets

	Years Ended June 30	
	2007	2006
<b>Operating Revenue</b>		
Member contributions - Gross of reinsurance	\$ 51,743,610	\$ 51,119,008
Member contributions - Ceded	(15,937,806)	(16,218,149)
Net member contributions	35,805,804	34,900,859
Energy Choice Program revenue	3,639,056	5,069,062
Loss contributions from associated programs	1,600,684	1,549,100
Total revenue	41,045,544	41,519,021
<b>Operating Expenses</b> - Risk management, underwriting, and other expenses		
Risk management expenses	3,218,663	3,127,212
Executive office, underwriting, claims, and other expenses	6,762,171	8,022,305
Energy Choice Program expenses	3,562,275	4,947,919
Total risk management, underwriting, and other expenses	13,543,109	16,097,436
<b>Net Contributions Available for Claims and Related Expenses</b>	27,502,435	25,421,585
<b>Claims and Related Expenses</b>		
Claims and claim adjustment expenses paid - Gross of subrogation and reinsurance recoveries	21,622,718	13,482,204
Reinsurance recoveries on claims and claims adjustment expenses	(5,838,427)	(1,741,564)
Change in net reserve for claims and claim adjustment expenses	(5,395,678)	2,328,686
Change in net reserve for claims and claim adjustment expenses incurred but not reported	(1,673,233)	9,737,646
Total claims and related expenses	8,715,380	23,806,972
<b>Operating Income</b>	18,787,055	1,614,613
<b>Nonoperating Income (Expense)</b>		
Net increase in fair value of investments	4,627,158	1,040,844
Investment income	32,604,076	11,207,950
Interest expense on member funds held on deposit	(1,356,449)	(961,436)
Net nonoperating income	35,874,785	11,287,358
<b>Distribution to Members</b>	(7,573,675)	(3,696,996)
<b>Increase in Net Assets</b>	47,088,165	9,204,975
<b>Net Assets</b> - Beginning of year	139,336,511	130,131,536
<b>Net Assets</b> - End of year	<u>\$ 186,424,676</u>	<u>\$ 139,336,511</u>

# Michigan Municipal Risk Management Authority

## Statement of Cash Flows

	Years Ended June 30	
	2007	2006
<b>Cash Flows from Operating Activities</b>		
Cash received from members	\$ 48,084,987	\$ 48,046,213
Member fund deposits received	18,943,861	18,546,430
Cash payments for reinsurance claims and member contributions	(18,974,577)	(10,428,961)
Energy Choice Program revenue received	3,856,737	5,250,237
Energy Choice Program expenses paid	(3,154,060)	(5,226,341)
Loss contributions from associated programs	1,600,684	1,549,100
Risk management and accounting expenses paid	(3,250,196)	(3,188,478)
Executive office, underwriting, claims, and other expenses paid	(8,400,979)	(7,623,164)
Interest paid on member funds held on deposit	(1,356,449)	(961,436)
Member fund claims and related payments	(13,560,438)	(15,492,201)
Claims and claims adjustment expenses paid	(15,784,291)	(11,740,640)
Net cash provided by operating activities	8,005,279	18,730,759
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	414,546,975	286,395,760
Purchases of investments	(416,993,191)	(328,203,238)
Distributions payable	3,876,679	3,696,996
Investment income received	31,247,627	10,246,514
Net cash provided by (used in) investing activities	32,678,090	(27,863,968)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	40,683,369	(9,133,209)
<b>Cash and Cash Equivalents - Beginning of year</b>	14,640,247	23,773,456
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 55,323,616</b>	<b>\$ 14,640,247</b>

# Michigan Municipal Risk Management Authority

## Statement of Cash Flows (Continued)

	Years Ended June 30	
	2007	2006
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 18,787,055	\$ 1,614,613
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	124,666	118,307
Changes in assets and liabilities:		
Member contributions receivable	496,977	1,582,670
Reinsurance recoverable	(1,799,885)	7,735,684
Prepaid expenses and other	(1,537,683)	(4,260,980)
Reserves for claims and claim adjustments expenses	(7,068,911)	12,066,332
Reinsurance premiums and casualty treaty adjustments payable	(204,671)	59,140
Accrued expenses	(731,029)	592,287
Unearned contributions	(61,240)	(777,294)
Net cash provided by operating activities	<u>\$ 8,005,279</u>	<u>\$ 18,730,759</u>

# **Michigan Municipal Risk Management Authority**

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## **Notes to Financial Statements June 30, 2007 and 2006**

### **Note 1 - Nature of Entity and Significant Accounting Policies**

Michigan Municipal Risk Management Authority (MMRMA) was established in January 1980 pursuant to the laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege, or authority which each might exercise separately. The purpose of MMRMA is to provide cooperative and comprehensive risk financing and risk control services for general and auto liability, motor vehicle physical damage, and property; purchase or otherwise provide for reinsurance or excess insurance or make other provisions for payment of losses and related expenses in excess of risk retained by MMRMA; and provide claims, legal defense, and related general administrative services to members. During 2001, MMRMA established the Energy Choice Program, under which eligible Michigan local communities can purchase electric and gas energy wholesale for their own use. On behalf of the communities, MMRMA negotiates and enters into contracts to purchase electric and gas energy for municipal purposes.

Any member may withdraw from MMRMA at the end of any anniversary year by giving at least 90 days' notice in writing of its desire to withdraw. Any member withdrawing from MMRMA while having a positive balance in its funds held on deposit may withdraw such funds less projected allocated claims expenses. Any member withdrawing from MMRMA having a negative balance in its funds held on deposit account shall repay MMRMA such negative balance and claims expenses incurred. At the request of the withdrawing member, MMRMA shall continue to service any pending claim and the member shall reimburse MMRMA for claims expenses incurred. Coverage in excess of the members' retention shall not be afforded withdrawing members for claims not serviced by MMRMA.

MMRMA prepares a detailed budgetary schedule of administrative expenses prior to the beginning of each fiscal year. The fundamental purpose of budgetary control is to plan for the expected level of operations and to provide management with a tool to control deviation from such plan.

The accounting policies of MMRMA conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental insurance pools. In September 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. MMRMA has elected to adopt statements or interpretations of the Financial Accounting Standards Board (FASB) that are issued after November 30, 1989 unless GASB specifically adopts pronouncements that conflict with or contradict such FASB statements or interpretations.



# Michigan Municipal Risk Management Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### **Note 1 - Nature of Entity and Significant Accounting Policies (Continued)**

MMRMA distinguishes operating revenue and expenses from nonoperating revenue and expenses. Operating revenue and expenses generally result from providing services in connection with MMRMA's principal ongoing operations. The principal operating revenue and expenses of MMRMA relate to premium revenue and claims and administrative expenses. Premium contributions received covering future contract periods are deferred and recognized over the related contract periods. Net investment earnings are reported as nonoperating revenue.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash and all liquid securities with maturities of 90 days or less when purchased.

**Member Contributions Receivable and Reinsurance Receivable** - Receivables from members are stated at net invoice amount and receivables from reinsurers are computed based on the applicable treaty. Collectibility of balances is reviewed periodically. Any amounts deemed uncollectible are written off at that time. No allowance for bad debts has been recorded because management considers all member and reinsurance receivables to be collectible.

**Investments** - Investments consist of U.S. government securities with maturities of greater than three months, agency-backed securities, collateralized mortgage obligations, and public, corporate, and foreign bonds. All investments are stated at fair value as determined by quoted market prices. Investments in proprietary funds offered by Comerica Bank are valued at the quoted market value provided by Comerica Bank. All investment income, including changes in the fair value of investments, is recognized as revenue in the statement of revenue, expenses, and changes in net assets.

**Restricted Investment** - MMRMA has a \$5 million bond held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by statute.

**Capital Assets** - Capital assets are recorded at cost. Depreciation is computed primarily using the straight-line method over the useful lives of the assets.

**Unearned Contributions** - Unearned contributions represent contributions invoiced during the year which cover a period extending beyond the end of the fiscal year and, thus, remain unearned as of year end.

**Distributions Payable** - MMRMA recognizes a liability for member distributions when the distributions have been approved by MMRMA's board of directors.

# Michigan Municipal Risk Management Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### Note I - Nature of Entity and Significant Accounting Policies (Continued)

**Reserves for Claims and Claim Adjustment Expenses** - MMRMA establishes claims liabilities based on estimates of the ultimate cost of claims, including future allocated and unallocated claims adjustment expenses, that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation and reinsurance recoveries are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in estimating claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability. Claims liabilities are estimated periodically using a variety of actuarial and statistical techniques to produce current estimates that reflects recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made. MMRMA retains a qualified, independent actuarial firm to perform an annual actuarial review of the risk retained by MMRMA. Premium deficiency is defined as the amount by which expected claims costs (including IBNR) and all expected claims adjustment expenses exceed related unearned premiums. MMRMA has determined that a premium deficiency does not exist. In making this determination, management has taken into consideration anticipated investment income.

**Member Contributions** - Member contributions related to amounts to be expended for reinsurance coverage, claim payments in excess of individual members' self-insured retentions, and certain general and administrative expenses are recognized as revenue in the year to which they apply. Member loss contributions are determined in accordance with the terms of the joint exercise of powers agreement (JPA) and underwriting guidelines established by MMRMA. The JPA is the primary governing document for MMRMA.

Member contributions related to claims costs that fall within the members' self-insured retention are reflected as member funds held on deposit. Member contributions for this are determined in accordance with the terms of the JPA. The executive director of MMRMA may authorize distributions to individual members in the event that their funds held on deposit are determined to be sufficient to do so.

# Michigan Municipal Risk Management Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

**Risk Management** - MMRMA is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates related to allowances for unsettled claims and claims incurred but not reported are described in Note 3.

**Accounting Change - GASB Statement No. 45** - Effective July 1, 2005, Michigan Municipal Risk Management Authority implemented the provisions of Governmental Accounting Standard Board (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 2 - Member Funds Held on Deposit

This account consists of those economic resources of the members held by MMRMA used for obligations of the members including loss payments and defense costs up to the members' self-insured retention amounts. Member funds on deposit earn interest based on their share of the fixed income portfolio return. In addition, economic resources in this account are used to pay certain other legal and meeting expenses of the members. It has been included in the accompanying financial statements as liability for the amount received but not yet earned or expended on claims costs.

The following is a summary of the change in member funds held on deposit during the years ended June 30:

	2007	2006
Member contributions	\$ 17,587,412	\$ 16,879,654
Claims and related costs:		
Member claims and claims adjustment costs		
paid - Net of subrogation receipts	12,901,517	14,788,555
General legal fees	186,261	192,512
State assessments and direct meeting costs	127,324	123,093
Funds distributed to members	345,336	388,041
Total claims and related costs	13,560,438	15,492,201
Excess of member contributions before interest		
over claims and related costs	4,026,974	1,387,453
Interest on member funds	1,356,449	961,436
Excess of member contributions and interest over		
claims and related costs	5,383,423	2,348,889
Member funds held on deposit - Beginning of year	18,546,430	16,197,541
Member funds held on deposit - End of year	\$ 23,929,853	\$ 18,546,430

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 3 - Allowances for Unsettled Claims and Claims Incurred but Not Reported

The following table represents changes in the unpaid claims, net of the effect of reinsurance, for MMRMA for the years ended June 30:

	<u>2007</u>	<u>2006</u>
Unpaid claims and claims adjustment expenses - Beginning of fiscal year	\$ 96,190,964	\$ 84,124,632
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	27,664,794	31,662,762
Change in provision for insured events of prior fiscal years	<u>(18,949,415)</u>	<u>(7,855,790)</u>
Total incurred claims and claims adjustment expenses	8,715,379	23,806,972
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	(2,699,438)	(1,900,861)
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	<u>(13,084,853)</u>	<u>(9,839,779)</u>
Total payments	<u>(15,784,291)</u>	<u>(11,740,640)</u>
Unpaid claims and claims adjustment expenses - End of fiscal year	<u>\$ 89,122,052</u>	<u>\$ 96,190,964</u>

# Michigan Municipal Risk Management Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### **Note 3 - Allowances for Unsettled Claims and Claims Incurred but Not Reported (Continued)**

The provision for incurred claims and claims adjustment expenses has been reduced by approximately \$16,854,000 and \$16,778,000, which represents amounts expected to be paid by reinsurers for 2007 and 2006, respectively. The provision for insured events of prior fiscal years decreased during 2007 and 2006 due to claims settling for amounts different from those originally estimated. The decrease was attributable to favorable claim settlements achieved through facilitation where several high profile claims were settled below the initial reserve estimates. Included in the provision for insured events of prior fiscal years are expenses related to events that occurred in previous years, but which do not require refunds of premiums to members.

### **Note 4 - Loss Coverage**

Loss coverage for general and auto liability and property is structured on a three-layer basis with each member retaining a portion of its losses. The layers are divided into three levels of risk retention whereby the members, MMRMA, and the reinsurance carriers share the risk. Loss coverage for auto physical damage is shared between the members and MMRMA.

**Member Retention Level** - A member's self-insured retention varies depending on the type of claim and the agreement entered into with MMRMA. The table below displays the amount of risk retained by the members for general and auto liability, property, and auto physical damage.

**Authority Retained Risk Program** - This program consists of those economic resources of MMRMA which have been restricted to pay losses incurred by members which exceed the members' self-insurance retention layer (SIR) and are not covered under existing reinsurance agreements. During 2007 and 2006, MMRMA agreed to retain certain levels of risk, rather than obtaining coverage through reinsurance agreements. The table below presents a summary of the amount of risk retained by MMRMA for general and auto liability, property, and auto physical damage.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 4 - Loss Coverage (Continued)

**Reinsurance Agreements** - MMRMA has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by MMRMA or the members. The table below displays the amount of risk retained by the reinsurer for general and auto liability, property, and auto physical damage.

Policy	Member SIR	Authority Coverage	Reinsurance
General and auto liability	\$50,000 to \$75,000 (1) per occurrence	Individual claims between members' SIR and \$1,000,000 and 100 percent of the next \$4,000,000 (2)	Individual claims in excess of MMRMA's coverage up to \$15 million per occurrence (3)  Individual claims resulting from terrorism in excess of MMRMA's coverage up to \$4 million over the life of the treaty
Property	\$1,000 deductible plus 10 percent up to \$100,000 per occurrence (6)	90 percent of the first \$100,000 after the deductible, plus 100 percent of the next \$400,000 per occurrence	Individual claims in excess of MMRMA's coverage up to the predetermined maximum limits for each member (4)  Individual claims resulting from terrorism in excess of MMRMA's coverage up to \$25 million over the life of the treaty
Auto physical damage	\$15,000 per unit and \$30,000 (5) per occurrence	Individual claims up to \$1,500,000 after members' SIR	No reinsurance coverage

(1) Certain members have higher retention levels and/or deductibles

(2) MMRMA retains 100 percent of this layer until a \$4 million aggregate is reached; any additional losses become the liability of the reinsurers

(3) Certain members have higher limits of liability per occurrence

(4) Limit based on value of property being insured

(5) After a \$1,000 deductible

(6) Some members have higher deductibles

In the event a reinsurance company does not meet its obligation to MMRMA, responsibility for payment of any unreimbursed claims will be paid by MMRMA using funds contributed by members for this purpose.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 4 - Loss Coverage (Continued)

MMRMA has also retained some risk for an intergovernmental agency that is an affiliated entity but not a member of the organization. As such, a portion of the activity recorded relates to this organization. Contributions paid by this organization for the coverage levels are shown as loss contributions from associated programs. MMRMA is responsible for payment of unreimbursed claims due to insolvent reinsurers for this organization.

**Member Stop-loss Program** - In addition to the member coverage described above, MMRMA provides optional stop-loss coverage to members to limit the aggregate losses paid by one member in any one year. MMRMA has entered into an agreement with participating members whereby total paid losses in any one fiscal year, net of reinsurance recoveries, which are in excess of a predetermined entry point will be paid by the stop-loss program. Allocations to the stop-loss program are based on a percent of contributions.

The following table summarizes the net impact of reinsurance arrangements on member contributions and claims and claims adjustment expenses paid:

	<u>2007</u>	<u>2006</u>
Member contributions:		
Direct	\$ 51,743,610	\$ 51,119,008
Ceded	<u>(15,937,806)</u>	<u>(16,218,149)</u>
Net member contributions	<u>\$ 35,805,804</u>	<u>\$ 34,900,859</u>
Claims and claim adjustment expenses paid	\$ 21,622,718	\$ 13,482,204
Reinsurance recoveries	<u>(5,838,427)</u>	<u>(1,741,564)</u>
Net claims and claim adjustment expenses paid	<u>\$ 15,784,291</u>	<u>\$ 11,740,640</u>



# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 5 - Investments

MMRMA's investment policy authorizes MMRMA to make deposits in custodial banks that are appointed upon the recommendation of the executive director.

MMRMA's investments are held in MMRMA's name. MMRMA has designated Comerica Bank for the deposit of its investments.

The overall asset mix of the fund, measured by market value, shall be as follows:

	<u>Maximum</u>	<u>Minimum</u>	<u>Target</u>
Equities	60%	25%	50%
Fixed income	75%	35%	40%
Cash equivalents	20%	5%	10%

MMRMA's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, MMRMA's deposits may not be returned to it. MMRMA does not have a deposit policy for custodial credit risk of bank deposits. At year end, MMRMA's deposit balance of \$330,211 had \$230,211 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. In addition, MMRMA has \$59,325,236 of cash equivalents that were uninsured and uncollateralized. MMRMA believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, MMRMA, with the assistance of the independent investment consultant, periodically evaluates the performance of the custodial bank and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. MMRMA's investment policy does not restrict investment maturities. MMRMA's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with MMRMA's cash requirements.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 5 - Investments (Continued)

At June 30, 2007, MMRMA held the following investments:

Investment Type (Comerica Defined)	Market Value (Including Accruals)	Weighted Average Maturity Date	Years
U.S. government	\$ 27,607,794	12/5/2010	3
U.S. government agencies	19,634,471	1/25/2011	4
Mortgage-backed securities	16,355,296	2/26/2028	21
Collateralized obligations	9,736,167	4/30/2033	26
Asset-backed securities	5,023,488	5/26/2019	12
Municipal bonds	271,414	8/30/2014	7
Corporate bonds	30,553,953	2/11/2018	11
Convertible corporate bonds	357,450	3/13/2023	16
Foreign bonds and notes	7,585,063	1/11/2013	6
Private placements	6,354,510	4/14/2021	14
Mutual funds	152,061,379	N/A	N/A
Pending trades	(26,888,119)	N/A	N/A
Total fair value	<u>\$ 248,652,866</u>		

At June 30, 2006, MMRMA had the following investments:

Investment Type (Comerica Defined)	Market Value (Including Accruals)	Weighted Average Maturity Date	Years
U.S. government	\$ 29,078,387	6/24/2010	4
U.S. government agencies	2,247,256	11/20/2008	2.4
Mortgage-backed securities	7,749,488	5/25/2026	19.9
Collateralized obligations	10,604,973	3/22/2036	29.7
Asset-backed securities	7,245,121	9/4/2012	6.2
Municipal bonds	142,448	3/26/2013	6.7
Corporate bonds	23,739,546	7/7/2013	7
Foreign bonds and notes	7,408,702	1/11/2011	4.5
Private placements	4,109,612	3/27/2013	6.7
Mutual funds	152,347,813	N/A	N/A
Pending trades	(613,669)	N/A	N/A
Total fair value	<u>\$ 244,059,677</u>		

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 5 - Investments (Continued)

**Credit Risk** - MMRMA has an investment policy that prohibits the following investments: warrants, options, futures, collectibles, leveraged securities, investment strategies, external mutual funds, hedge funds, derivatives, equity investments in LLCs, unit investment trusts, margin purchases, short sales, securities of corporation service providers, and loaning or pledging securities.

The portfolio's debt securities must have a minimum quality rating of B by Standard & Poor's, while the overall portfolio should have an average minimum quality rating of A or its equivalent as determined in good faith by MMRMA.

At June 30, 2007, the credit quality ratings of debt securities, without regard to investment type, are as follows:

<u>Rating</u>	<u>Amount - Fair Value</u>
AAA	\$ 70,101,651
AA	5,258,385
A	15,604,548
BBB	15,007,420
BB	3,698,540
B	3,180,623
NR	9,011,764
Total	<u>\$ 121,862,931</u>

At June 30, 2006, the credit quality ratings of debt securities, without regard to investment type, are as follows:

<u>Rating</u>	<u>Amount - Fair Value</u>
AAA	\$ 47,821,702
AA	3,957,375
A	12,839,787
BBB	13,866,787
BB	2,428,285
B	1,894,245
NR	8,480,740
Total	<u>\$ 91,288,921</u>

The rating organization used by MMRMA to rate its investments is Standard & Poor's.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 5 - Investments (Continued)

**Concentration of Credit Risk** - Equity portfolios must consist of well-diversified, publicly held stocks, listed on U.S. stock exchanges. MMRMA may not invest in more than 5 percent of the outstanding securities of one issuer nor invest more than 5 percent of the portfolio's assets in the outstanding securities of one issuer. There were no investments that individually exceed 5 percent of MMRMA's total investments at June 30, 2007 and 2006.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in a currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. MMRMA's investments in foreign bonds and notes at June 30, 2007 and 2006 total \$7,167,938 and \$7,146,264, respectively; however, the investments are denominated in U.S. currency.

### Note 6 - Capital Assets

Capital asset activity for MMRMA at June 30, 2007 is as follows.

	Balance July 1, 2006	Additions	Balance June 30, 2007
Capital assets being depreciated:			
Building	\$ 1,774,609	\$ -	\$ 1,774,609
Computer hardware	-	62,170	62,170
Computer software	-	184,207	184,207
Subtotal	1,774,609	246,377	2,020,986
Accumulated depreciation:			
Building	1,498,559	118,307	1,616,866
Computer hardware	-	5,181	5,181
Computer software	-	1,178	1,178
Subtotal	1,498,559	124,666	1,623,225
Net capital assets being depreciated	\$ 276,050	\$ 121,711	\$ 397,761

There were no disposals in 2007 and 2006. The depreciation expense included in the statement of revenue, expenses, and changes in net assets at June 30, 2007 and 2006 was \$124,666 and \$118,307, respectively.

# Michigan Municipal Risk Management Authority

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## Notes to Financial Statements June 30, 2007 and 2006

### Note 7 - Employee Benefits

**Defined Contribution Plans** - MMRMA funds a 401(a) defined contribution plan (the "Plan") which provides retirement benefits to its employees. Amounts contributed to the Plan by MMRMA are based on 15 percent of the executive director's W-2 income and 12 percent of all other employees' W-2 income. An employee must be employed one year before becoming eligible. Contributions were approximately \$240,000 and \$221,000 in fiscal years 2007 and 2006, respectively.

Additionally, MMRMA has a healthcare savings plan (the HCSP) with Municipal Employees' Retirement System of Michigan (MERS). This defined contribution health plan was established to fund employee health benefits after termination of employment. All employees that are eligible for the Plan are also eligible for the HCSP. The HCSP is funded entirely by MMRMA contributions and is based on a formula which results in the same amount being contributed for each eligible employee. The investment balances can be used by the terminating employee for eligible benefits under the program. After remitting MMRMA's contribution for the employees, MMRMA is not liable for any additional costs related to terminating employees. Upon commencement of the HCSP plan, MMRMA funded an amount to recognize prior service costs. During 2007 and 2006, MMRMA contributed \$53,000 and \$49,000, respectively.

MMRMA also allows eligible employees the option of deferring compensation to future periods. The eligible employee can elect to have a portion of his or her salary remitted to the International City Managers Association for future withdrawal as compensation. MMRMA does not maintain the deferred compensation funds and does not defer this compensation cost. As such, included in the statement of revenue, expenses, and changes in net assets are compensation expenses earned by employees during the year, regardless of whether the employees receive funds for compensation or elect to defer a portion of their compensation through this program.

**Defined Benefit Plan** - MMRMA has a retiree health benefit program, which provides limited retiree health and Medicare supplemental coverage for all full-time employees who terminate after January 1, 2005 with a minimum age of 57 years and minimum service of 10 years. MMRMA is responsible for a portion of benefit costs based on age and years of service, subject to a maximum payment of costs of \$1,000 per month per retiree, increased by 2.5 percent each year after 2006, with any excess funded by retiree contributions. There were 15 participants in the program, of which one was eligible to receive benefits at June 30, 2007.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2007 and 2006

### Note 7 - Employee Benefits (Continued)

MMRMA has established a segregated trust under the supervision of the Municipal Employees' Retirement System to accumulate funds for payment of future benefits. MMRMA contributed \$1,069,432 to the plan during the year ended June 30, 2007. There were no contributions during the year ended June 30, 2006. Upon adoption, MMRMA elected to accrue the full actuarially computed liability. MMRMA fully funded the liability in October 2006. The annual required contributions (ARC), as computed by the actuary, will be reported as expense and fully funded on an annual basis over eligible employees' future service periods.

**Funded Status and Funding Progress** - As of July 1, 2005, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,001,612, and the value of the assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,001,612. In 2006, MMRMA accrued an additional \$67,820, an estimate of the expense for the year ended June 30, 2006, which increased UAAL to \$1,069,432. MMRMA contributed \$1,069,432 to the plan in 2007. In addition, MMRMA accrued an additional \$68,625 in 2007, which represents an estimate of the expense for the year ended June 30, 2007. The actuarial valuation will be performed every three years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost include (a) rate of return on the investments of present and future assets of 8.0 percent, compounded annually, (b) projected annual salary increases of 4.5 percent, plus a percentage based on age, related to a scale that reflects merit, longevity, and promotional salary increases, and (c) amortization method level dollar over a 30-year period. The funded status of the plan as of July 1, 2005, the most recent actuarial valuation date, is as follows:

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
7/1/2005	\$ -	\$ 1,001,612	\$ (1,001,612)	0.00%

For measurement purposes, a 4.5 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed as of the valuation date. The rate is assumed to remain at this level.

# **Michigan Municipal Risk Management Authority**

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## **Notes to Financial Statements June 30, 2007 and 2006**

### **Note 8 - Litigation Matters**

MMRMA is involved in various litigation and legal matters, which are being defended and handled in the ordinary course of business. The costs of any claims ultimately paid to cover MMRMA's portion of a legal obligation with respect to these matters constitute expenses to MMRMA. In the opinion of MMRMA's management and legal counsel, the ultimate resolution of these various litigation issues will not have a material effect on MMRMA and its members.

## **Required Supplemental Information**

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# Michigan Municipal Risk Management Authority

## Required Supplementary Information Schedule of Claims Information for All Lines of Coverage

The table on the following page illustrates how MMRMA's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by MMRMA as of the end of each of the last 10 years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs of MMRMA, including overhead and claims expenses not allocable to individual claims.
- (3) This line shows MMRMA's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued), as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of 10 rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- (6) This section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.
- (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

# Michigan Municipal Risk Management Authority

## Schedule of Claims Information for All Lines of Coverage (Continued)

### Required Supplementary Information

Fiscal Year Ended June 30	1998	1999	2000	2001	2002	2003*	2004*	2005	2006	2007
(1) Required contributions and investment revenue:										
Earned	\$ 45,337,083	\$ 45,905,155	\$ 53,398,313	\$ 39,151,457	\$ 13,694,683	\$ 43,545,899	\$ 57,799,986	\$ 63,651,858	\$ 62,914,622	\$ 84,455,062
Ceded	5,109,520	6,311,948	7,623,509	7,673,013	12,751,916	13,247,813	14,069,985	13,592,635	16,218,149	15,937,806
Net earned	40,227,563	39,593,207	45,774,804	31,478,444	942,767	30,298,086	43,730,001	50,059,223	46,696,473	68,517,256
(2) Unallocated expenses*	6,379,930	6,700,960	7,258,409	7,742,554	7,875,954	12,671,134	11,048,572	10,070,451	17,663,152	15,645,498
Policy Year Ended June 30 (in thousands)										
(3) Estimated incurred claims and expenses, end of policy year:										
Incurred	23,498	27,828	23,060	45,115	28,080	34,113	30,169	37,548	37,146	33,069
Ceded	2,500	143	102	19,978	1,127	7,047	2,627	5,833	5,483	5,404
Net incurred	20,998	27,685	22,958	25,137	26,953	27,066	27,542	31,715	31,663	27,665
(4) Net paid (cumulative) as of:										
End of policy year	1,230	2,833	1,297	3,593	1,721	2,836	1,352	1,641	1,901	2,699
One year later	3,236	4,514	3,285	5,965	4,342	5,040	5,393	4,625	4,237	-
Two years later	7,250	7,185	7,452	8,595	6,188	8,280	7,397	7,065	-	-
Three years later	12,213	8,784	12,117	10,875	7,309	10,875	11,131	-	-	-
Four years later	13,781	10,461	14,339	11,040	7,796	12,876	-	-	-	-
Five years later	14,486	11,516	15,706	11,574	8,695	-	-	-	-	-
Six years later	15,286	11,597	16,084	11,936	-	-	-	-	-	-
Seven years later	15,833	11,612	16,487	-	-	-	-	-	-	-
Eight years later	15,885	11,629	-	-	-	-	-	-	-	-
Nine years later	16,066	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded claims and expenses	40	-	20	90	2	804	1,042	1,569	5,280	5,404
(6) Re-estimated incurred claims and expenses:										
End of policy year	20,998	27,685	22,958	25,137	26,953	27,066	27,542	31,715	31,663	27,665
One year later	22,244	23,777	20,213	28,572	23,691	25,489	26,407	28,786	27,663	-
Two years later	19,432	16,639	21,333	23,867	18,160	21,056	21,877	24,662	-	-
Three years later	18,804	15,694	19,048	17,678	13,062	20,406	19,068	-	-	-
Four years later	16,386	12,619	19,260	14,248	13,092	16,470	-	-	-	-
Five years later	16,376	12,897	18,599	14,468	10,475	-	-	-	-	-
Six years later	16,796	11,958	18,051	13,716	-	-	-	-	-	-
Seven years later	16,387	11,811	17,236	-	-	-	-	-	-	-
Eight years later	16,374	11,786	-	-	-	-	-	-	-	-
Nine years later	16,490	-	-	-	-	-	-	-	-	-
(7) Decrease in estimated incurred claims and expenses, end of policy year	4,508	15,899	5,722	11,421	16,478	10,596	8,474	7,053	4,000	-

\* The unallocated expenses line item for 2004 and 2003 includes \$1,927,432 and \$4,182,106, respectively, related to unallocated loss adjustment expense (ULAE) that applies to 2004 and prior policy years.

## **Other Supplemental Information**

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**Statement of Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract (in thousands)**

Unpaid claims and claims adjustment expenses liability -  
Beginning of year  
Incurred claims and claims adjustment expenses:  
Provision for insured events of the current fiscal year  
Change in provision for insured events of prior fiscal  
years

**Payments:**

Claims and claims adjustment expenses attributable to insured events of the current fiscal year

Claims and claims adjustment expenses attributable to insured events of prior fiscal years

Unpaid claims and claims adjustment expenses - End of year